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SUBJECT: PROS AND CONS OF INVESTING IN MOROCCO

¶1. (SBU) Summary. Morocco is an increasingly attractive investment destination, as evidenced by the on-going series of events in Casablanca and other cities to discuss opportunities for potential investors. Many factors make Morocco a good place for Americans to invest, including the FTA, flexibility in setting business terms, and a qualified, low-cost workforce. At the same time, challenges remain. They include: a questionable supply of skilled workers; lack of capacity to serve the U.S. market; bureaucratic and regulatory obstacles; and a weak judicial system. End Summary.

THE PROS OF INVESTING IN MOROCCO

¶2. (U) The newly-released 2007 Morocco Trade and Investment Guide, published by the American Chamber of Commerce, lists the reasons that Morocco offers a "welcoming business environment." At the top of the list are low labor costs, proximity to Europe and the U.S., political and economic stability, and prime tourist attractions. Also mentioned are reforms such as stricter enforcement of intellectual property laws and an improved labor code.

¶3. (U) The Free Trade Agreement (FTA) between Morocco and the U.S., and its "investor-friendly rules," is also a key incentive. Companies such as Paris Texas - Chapstar have found that they can deliver Moroccan-made specialized fabrics to the U.S. market at a lower cost than similar goods manufactured in Egypt or China, thanks to the tariff relief provided by the FTA. More and more companies, including Italian shoe manufacturers and others, are seeking ways to take advantage of FTA benefits.

¶4. (SBU) Another incentive is the flexibility offered by a country that actively promotes and is eager for investment. Anwar Dahab, Managing Director of Dell Computer Morocco, says that his company particularly appreciated the ability to negotiate its terms when it set up shop in 2003. Dahab noted that he has worked directly with Prime Minister Driss Jettou to design an incentive package for the company's upcoming move to Casablanca's new Casashore. Dahab conceded that Morocco did not immediately deliver on all its promised incentives for its initial investment, but that it has been able to resolve the problem, and appreciates the responsiveness and flexibility that Morocco offers investors.

¶5. (U) Morocco also seems able to provide a qualified and relatively low-cost workforce in many areas. Dell, for example, went from 700 employees at the end of 2004 to 1400 just a year later. The ability to expand so rapidly testifies to a pool of qualified workers in some key sectors. In addition, unemployment is a significant problem in Morocco, further inducing the government to provide incentives to businesses that bring jobs to the country.

THE CONS OF INVESTING IN MOROCCO

¶16. (U) Despite the advantages of investing in Morocco, there are challenges as well. Language and cultural barriers can make doing business difficult, and companies often have trouble finding information about Moroccan businesses in English. Sometimes the information they do find is written so poorly that it puts off potential partners or investors. As in any country, potential investors can also be victimized by unscrupulous local economic operators. The problem is compounded by the slow pace and complexity of the Moroccan judicial system, which is widely perceived to be a key impediment to foreign investment.

¶17. (U) The labor market story is also not uniformly positive, notwithstanding Dell's experience. Morocco's aggressive tourism promotion policy aims to create 80,000 additional rooms by 2010, generating 72,000 new jobs. Already, however, some new establishments in Marrakech and other popular destinations report difficulty in recruiting qualified staff. Similarly, Morocco's goal of training 10,000 engineers by 2010 is also falling behind schedule. In addition, investors are sometimes surprised to find that when it comes to labor costs, Morocco may be inexpensive compared to Europe or the U.S., but it is not a low-cost country compared to many other emerging markets.

¶18. (U) Another potential concern for investors is the ability of Moroccan businesses to satisfy the demands of the U.S. market. Speakers at the recent Moroccan-American Bridges conference pointed out that Moroccan exporters are sometimes so busy filling orders for other markets, usually Europe, that they have little excess capacity for the U.S. and little ability to increase production quickly. Another speaker noted that this problem also exists in the agribusiness sector, as does that of reliability and standards.

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¶19. (SBU) While Morocco has put a great deal of effort into instituting reforms that improve the investment climate, there is still work to be done. Regulations in many areas remain opaque and time-consuming, a problem compounded by the judicial shortcomings cited above. To cite one key example, implementation of Morocco's new 2004 labor code remains extremely problematic. Even companies that fully comply with its provisions can find themselves dragged into court by disgruntled employees, where they can face judgments that have little relation to the underlying facts of the case. On the whole, Morocco is reform-minded and moving forward, but investors still need to be cautious about perceived versus actual benefits from newly instituted changes.

¶10. (SBU) Unfortunately, the rise of terrorism in Morocco is an issue that potential U.S. investors have to consider, particularly for those interested in the tourism sector. Following recent suicide bombings in Casablanca, however, Moroccans have been quick to note that their experiences with terrorism are similar to those in many Western countries. According to Anwar Dahab of Dell Computer, "Morocco is a stable country and terrorism in Morocco is like what happened in Madrid or London." In other words, it happens everywhere now and does not indicate fundamental instability. At the same time, the GOM has stepped up efforts to track and capture terrorists in Morocco, and is keenly aware of the negative impact terrorist acts could have on the country's ability to encourage Foreign Direct Investment as an integral part of its growth strategy.

¶11. (SBU) Comment. Morocco offers many compelling reasons for American businesses to invest in the country. Several U.S. companies, including Dell Computer, Colony Capital, International Paper, Fruit of the Loom and Century 21, have had positive experiences. The GOM's eagerness to court international investors, however, sometimes masks the challenges of investing in Morocco. Not only is Morocco anxious to downplay any downsides to investing here, but many of the country's reforms and initiatives are very new, requiring time and tweaking before investors can benefit fully from them. End Comment.

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